

Message Text

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PAGE 01 ROME 17051 211349Z

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ACTION EUR-12

INFO OCT-01 EA-07 IO-10 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

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INFO AMEMBASSY BONN

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USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

USDEL MTN GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY TOKYO

AMCONSUL MILAN

AMCONSUL NAPLES

C O N F I D E N T I A L ROME 17051 SECTION 01 OF 02

E.O. 11652: GDS

TAGS: ECON, PINT, IT

SUBJECT: IMPACT OF ITALIAN ECONOMIC SITUATION ON POLITICAL
SITUATION

SUMMARY. RESULTS OF JUNE 15 REGIONAL ELECTIONS, IN WHICH
PCI MADE SUBSTANTIAL GAINS AT EXPENSE OF DC, REFLECTED
IN PART VOTER DISSATISFACTION WITH ECONOMIC SITUATION
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PAGE 02 ROME 17051 211349Z

AND OUTLOOK. POLITICAL PROSPECTS FOR DC AND ITS

COALITION PARTNERS IN POST-JUNE 15 PERIOD (I.E., LOCAL ELECTIONS IN MAY OR JUNE 1976 AND NATIONAL ELECTIONS SCHEDULED FOR SPRING 1977) WILL ALSO BE AFFECTED BY ECONOMIC DEVELOPMENTS IN COMING MONTHS AND BY VOTERS' PERCEPTIONS OF GOVERNMENT'S RESPONSIBILITY FOR THESE DEVELOPMENTS. MAIN SHORT-TERM FACTORS ARE INFLATION AND RECESSION. WHILE IT IS EXPECTED THAT SITUATION WILL IMPROVE ON BOTH COUNTS OVER NEXT YEAR, IT IS DOUBTFUL WHETHER IMPROVEMENT WILL BE ENOUGH FOR GOVERNMENT TO GAIN SIGNIFICANT POLITICAL BENEFITS. LONGER TERM FACTORS, WHICH MAY BE AT LEAST EQUALLY IMPORTANT TO DC SURVIVAL, INCLUDE EFFECT OF IMPORTANT SHIFT IN INCOME DISTRIBUTION IN FAVOR OF WORKERS, ESPECIALLY BLUE-COLLAR WORKERS, AND GOVERNMENT MALADMINISTRATION AND INEFFICIENCY. END SUMMARY.

1. SHORT-TERM FACTORS: INFLATION. VOTER UNHAPPINESS WITH INFLATION, WHICH WILL CONTINUE TO AFFECT POLITICAL PROSPECTS OF DC-LED COALITION IN FORTHCOMING LOCAL AND NATIONAL ELECTIONS, IS BY NO MEANS UNIQUE TO ITALY. HOWEVER, RATE OF INFLATION IN ITALY HAS BEEN PARTICULARLY HIGH (19 PERCENT IN 1974), AND APPARENT INABILITY OF GOI TO ADEQUATELY COMBAT PROBLEM HAS CERTAINLY REDOUNDED TO POLITICAL ADVANTAGE OF OPPOSITION ELEMENTS. SENSITIVITY OF ELECTORATE TO PRICE RISES CAN BE SEEN IN STRONG, AND AT TIMES VIOLENT, OPPOSITION TO RECENT INCREASES IN GOVERNMENT-CONTROLLED PRICES FOR TELEPHONE AND ELECTRICITY RATES. ALTHOUGH BOTH RATE INCREASES REPRESENTED NECESSARY CATCHING-UP FOLLOWING YEARS OF RATE STABILITY (E.G., ELECTRIC RATES HAD NOT BEEN RAISED SINCE EARLY 1960'S), THEY WERE PERCEIVED BY LARGE SEGMENT OF POPULATION AS UNFAIRLY DISTRIBUTED AND ONEROUS. SHARP PRICE RISES IN VIRTUALLY ALL SECTORS HAVE DIRECTLY AFFECTED ENTIRE POPULATION. FACT THAT REAL WAGES HAVE CONTINUED TO RISE (FROM 5 TO 12 PERCENT RANGE 1970-74) IS NOT GENERALLY PUBLICIZED NOR RECOGNIZED BY ITALIANS. PERHAPS FORTUNATELY FOR COALITION PARTIES, FACT THAT NON-WAGE INCOME HAS ACTUALLY FALLEN IN REAL TERMS IN THREE OF LAST FIVE YEARS IS ALSO NOT WELL PUBLICIZED.

2. RECESSION. SECOND AREA OF VOTER DISSATISFACTION IS
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PAGE 03 ROME 17051 211349Z

ECONOMIC RECESSION. UNEMPLOYMENT AND UNDEREMPLOYMENT HAVE INCREASED SOMEWHAT AND SOME HARDSHIP HAS RESULTED, NOTWITHSTANDING FLEXIBILITY OF ITALIAN LABOR MARKET (E.G., WIDESPREAD MOONLIGHTING AND LARGE RE-ABSORPTIVE CAPACITY OF AGRICULTURE AND SERVICE SECTORS) AND WAGE SUPPLEMENT PAYMENTS FOR SHORT-TIME WORK. EVEN THOUGH NUMBER OF UNEMPLOYED TO DATE IS RELATIVELY MODEST, LARGE PROPORTION CONSISTS OF YOUNG WORKERS SEEKING FIRST JOB WHO ARE

HIGHLY POLITICIZED IN FAVOR OF LEFTIST PARTIES, ARE VOCAL IN THEIR DISSATISFACTION AND ARE APT TO REGISTER DISAPPROVAL AT POLLS. BESIDES MEASURABLY ADVERSE EFFECTS OF INFLATION AND UNEMPLOYMENT, ECONOMIC RECESSION HAS ALSO LED TO GROWING LACK OF CONFIDENCE IN COALITION PARTIES' OVERALL ABILITY TO GOVERN.

3. ECONOMIC OUTLOOK. OUTLOOK ON TWIN FRONTS OF INFLATION AND RECESSION OVER COMING YEAR ARE REASONABLY GOOD. COST OF LIVING INCREASE, WHICH HAD HIT PEAK OF ABOUT 25 PERCENT (DECEMBER 1974 TO DECEMBER 1973), HAS NOW RECEDED TO 10-11 PERCENT RANGE. EMBASSY'S FORECAST IS THAT IT WILL REMAIN IN THAT GENERAL RANGE DURING 1976, ALTHOUGH A STRONG ECONOMIC UPTURN COULD TRIGGER RESURGENCE OF INFLATION. UNFORTUNATELY FOR DC, VOTERS HAVE FAR BETTER MEMORY OF PRICE INCREASES THAN OF DECREASES, LET ALONE DECLINES IN RATE OF INCREASE. NONETHELESS, MODERATION IN INFLATION RATE SHOULD HELP STEM VOTER DISCONTENT.

4. OUTLOOK FOR REAL ECONOMIC GROWTH IN 1976 IS REASONABLY GOOD. WHILE ITALY WILL EXPERIENCE ITS FIRST DOWNTURN IN GDP IN 1975(MINUS 3.5 TO 4.5 PERCENT), INDICATIONS ARE THAT GDP WILL SHOW POSITIVE REAL GROWTH IN 1976, PROBABLY AROUND 3 PERCENT. HOWEVER, UPTURN WILL LIKELY BE SLOW AT LEAST UNTIL AROUND SECOND HALF 1976 AND WILL DEPEND TO SIGNIFICANT EXTENT ON ECONOMIC POLICIES AND DEVELOPMENTS ON OTHER INDUSTRIALIZED COUNTRIES. NEVERTHELESS, BY EARLY 1977 IMPROVED ECONOMIC SITUATION SHOULD BE STATISTICALLY APPARENT. MAN ON THE STREET MAY NOT BE FULLY AWARE OF ANY IMPROVEMENT, BUT EFFECTS OF UPTURN SHOULD AT LEAST PROVIDE SOME MODEST ELECTORAL BENEFITS TO COALITION PARTIES.

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